

Review of Application by the NCCI for
Revised Workers Compensation Advisory
Loss Costs and Rating Values in Colorado
Proposed Effective Date: January 1, 2015

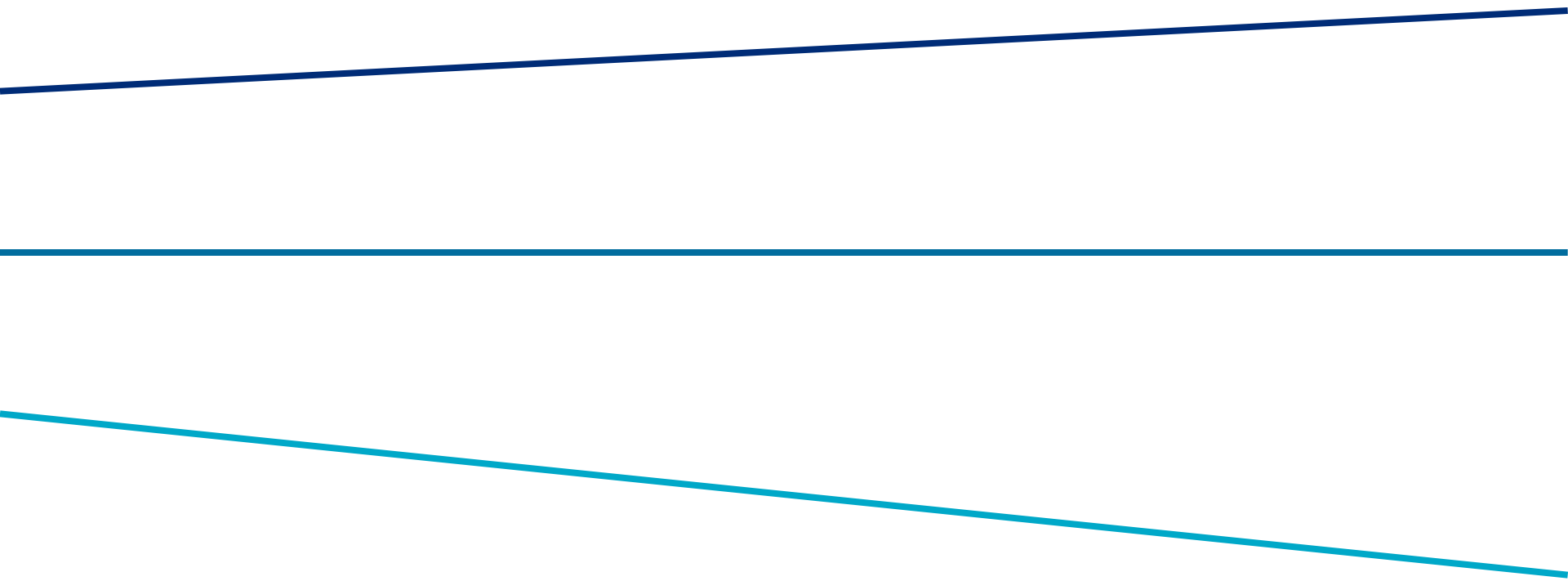
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Topics for Discussion

1. Industrial Classifications
2. Class Ratemaking
3. D-Ratios for Experience Rating

Industrial Classifications



Industrial Classifications

Summary and Comparison of Recommended Changes to Advisory Loss Costs

	<u>NCCI Proposal</u>	<u>Oliver Wyman Indication</u>
1. Indicated Change to Advisory Loss Costs Prior to Off-Balance Adjustment	-0.4%	-0.5%
2A. Premium Impact of Off-Balance Adjustment	-0.4%	-0.4%
2B. Required offset to Advisory Loss Costs Due to Off-Balance Adjustment	+0.4%	+0.4%
3. Proposed Change to Advisory Loss Costs	0.0%	-0.1%

Recommendation: Accept NCCI's Proposal.

Industrial Classifications

General Approach is Unchanged

Paid Loss plus Case Reserve Data

Market Segmentation

- Examine Pinnacol and Private Carriers Separately
- Pinnacol Continues to:
 - Reserve Claims to a High Level of Adequacy
 - Settle and Close Claims Efficiently
- Pinnacol Data Coding Changes
- Other observations were discussed and validated by Pinnacol

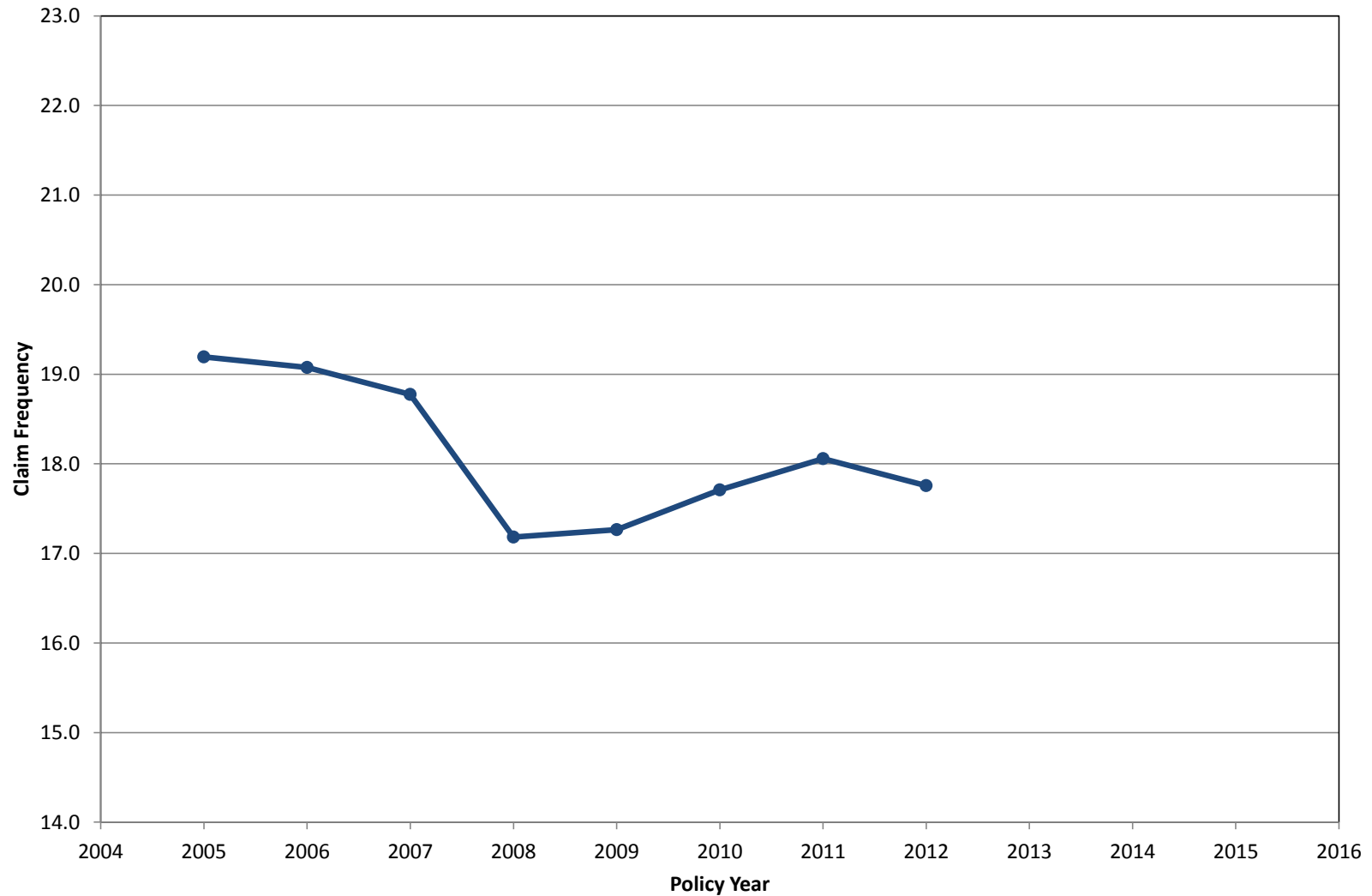
Industrial Classifications

Detailed Comparison

	<u>NCCI Proposal</u>	<u>Oliver Wyman Proposal</u>
Tail Factors	Latest 5 Observations	Latest 5 Observations Excluding High and Low
Loss Development Average	Latest 5 Observations	Latest 5 Observations Excluding High and Low
Annual Indemnity LR Trend	-4.0%	-4.1%
Annual Medical LR Trend	0.0%	0.0%
Target Off-Balance	Division Approved Target	Division Approved Target

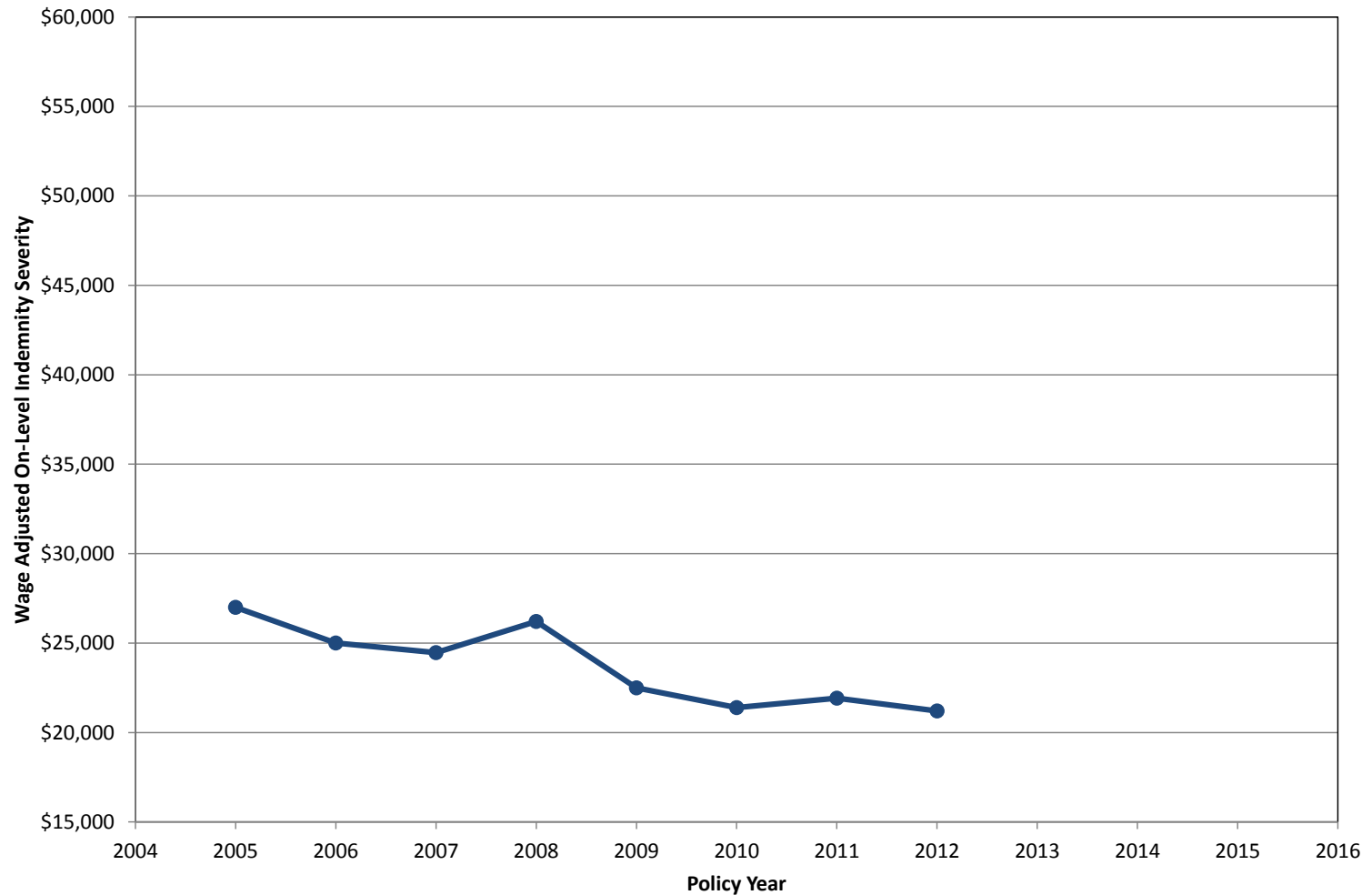
Industrial Classifications

Key State Indicators – Claim Frequency per \$1M On-Level Premium



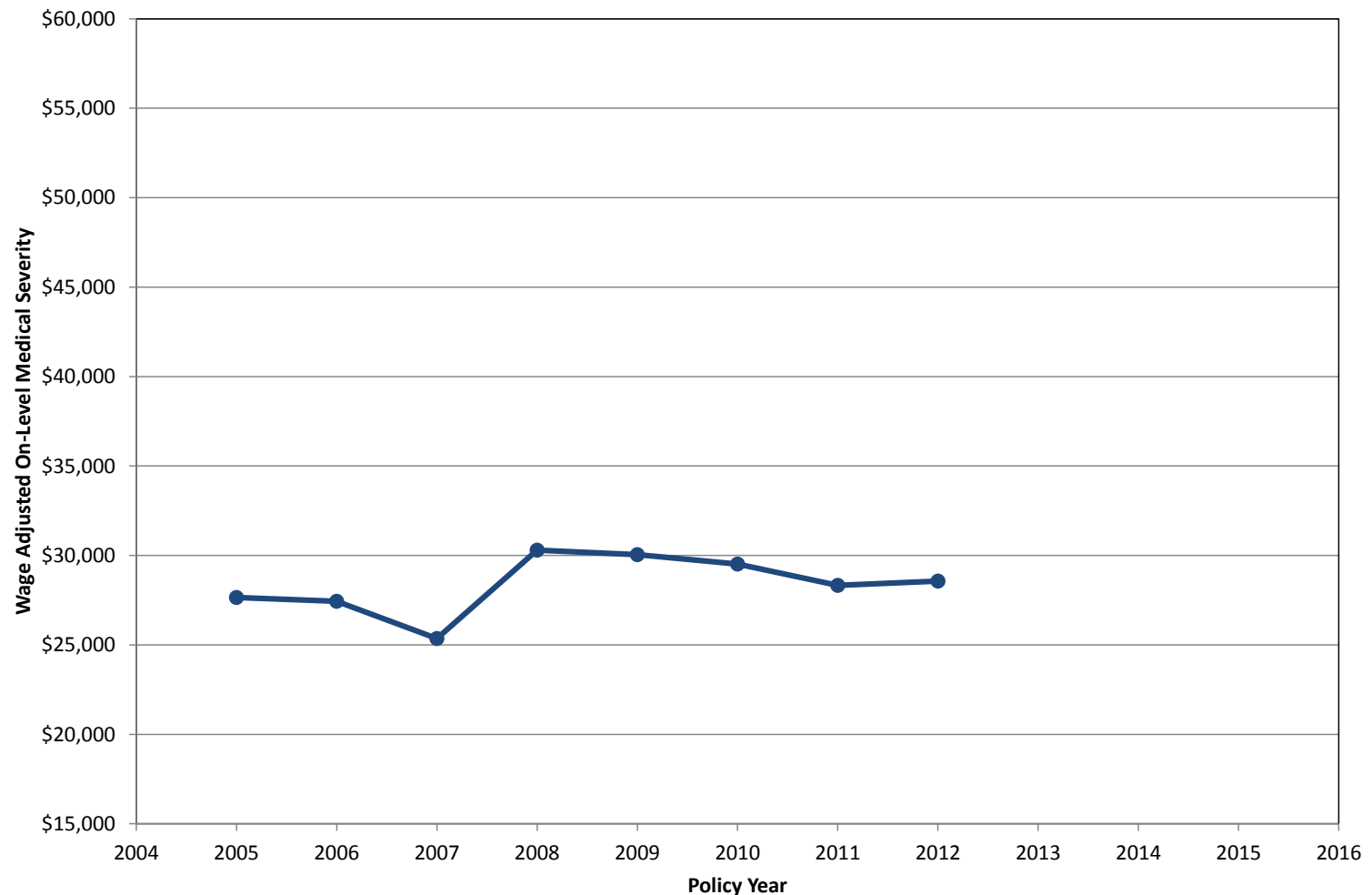
Industrial Classifications

Key State Indicators – Indemnity Severity After On-Level and Wage Adjustments



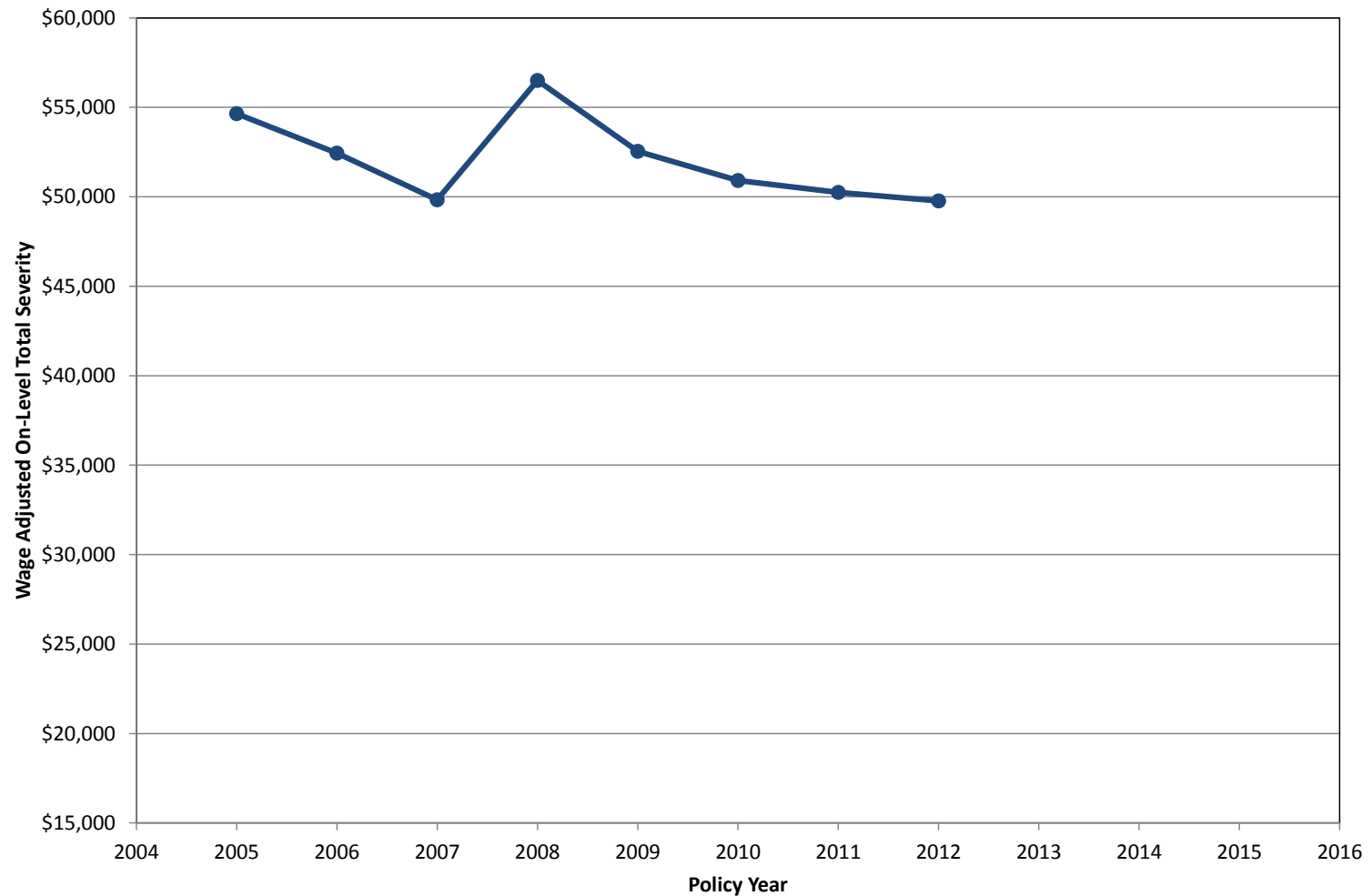
Industrial Classifications

Key State Indicators – Medical Severity After On-Level and Wage Adjustments



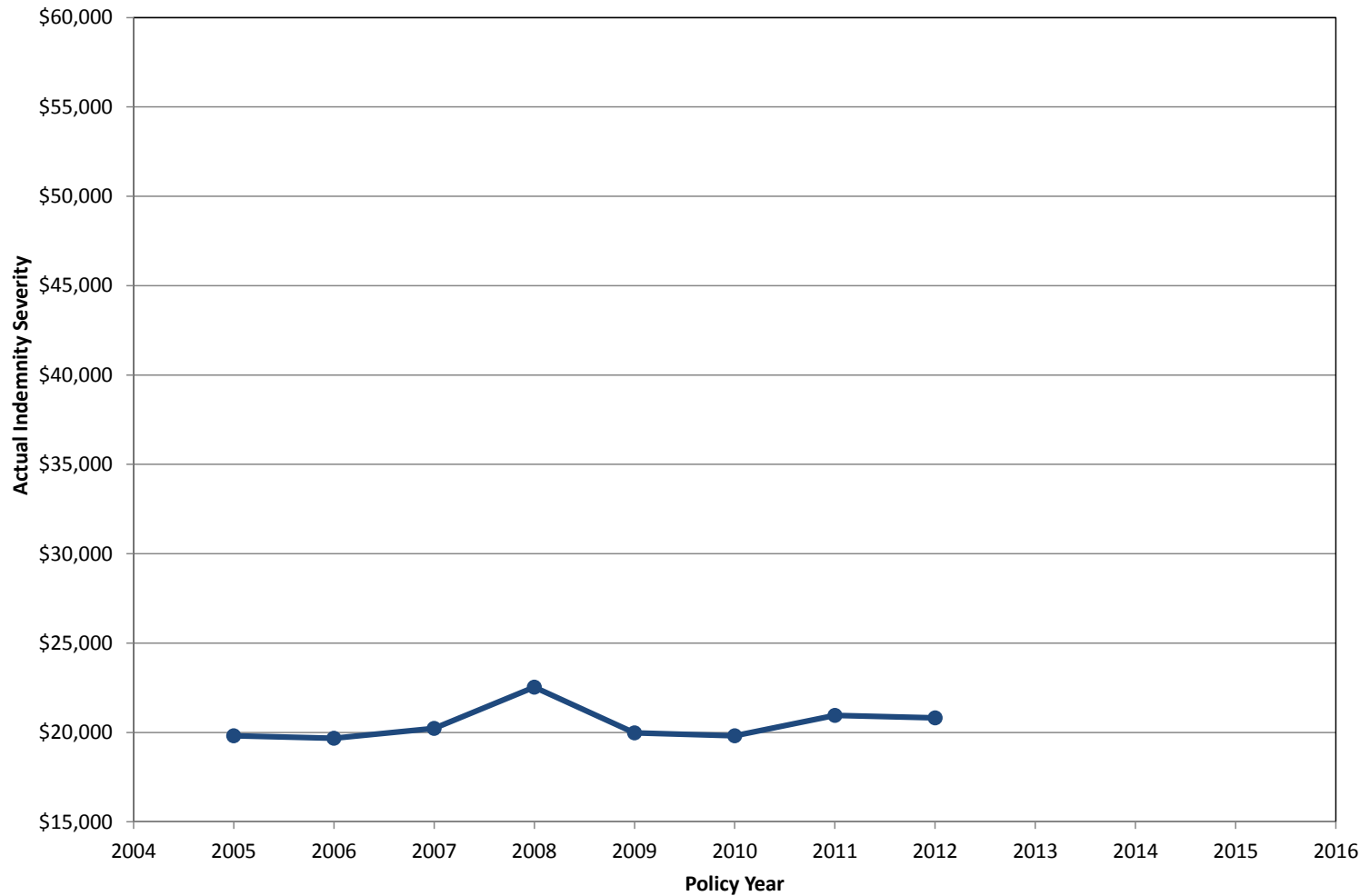
Industrial Classifications

Key State Indicators – Combined Severity After On-Level and Wage Adjustments



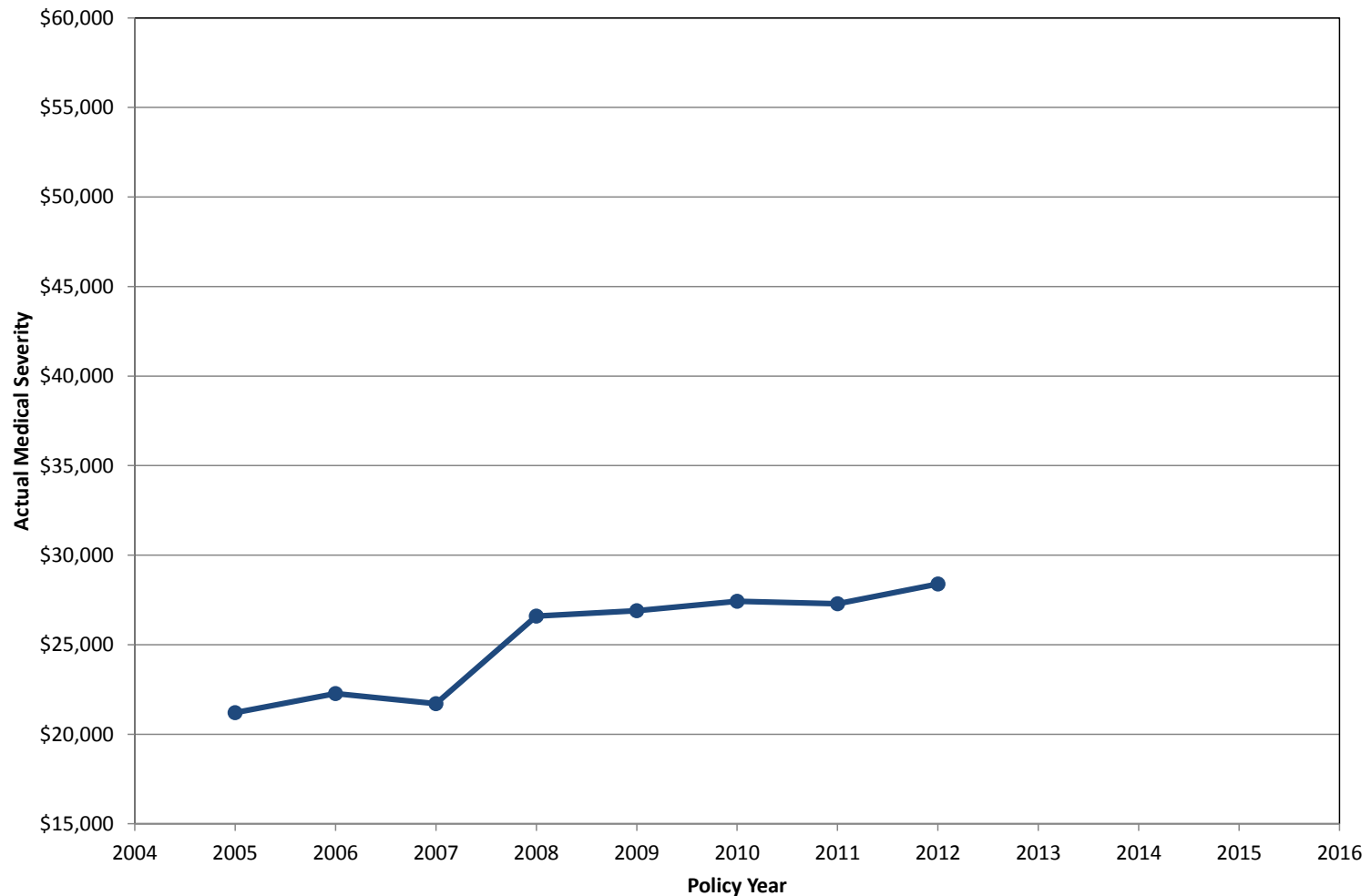
Industrial Classifications

Key State Indicators – Indemnity Severity – Actual Measurement



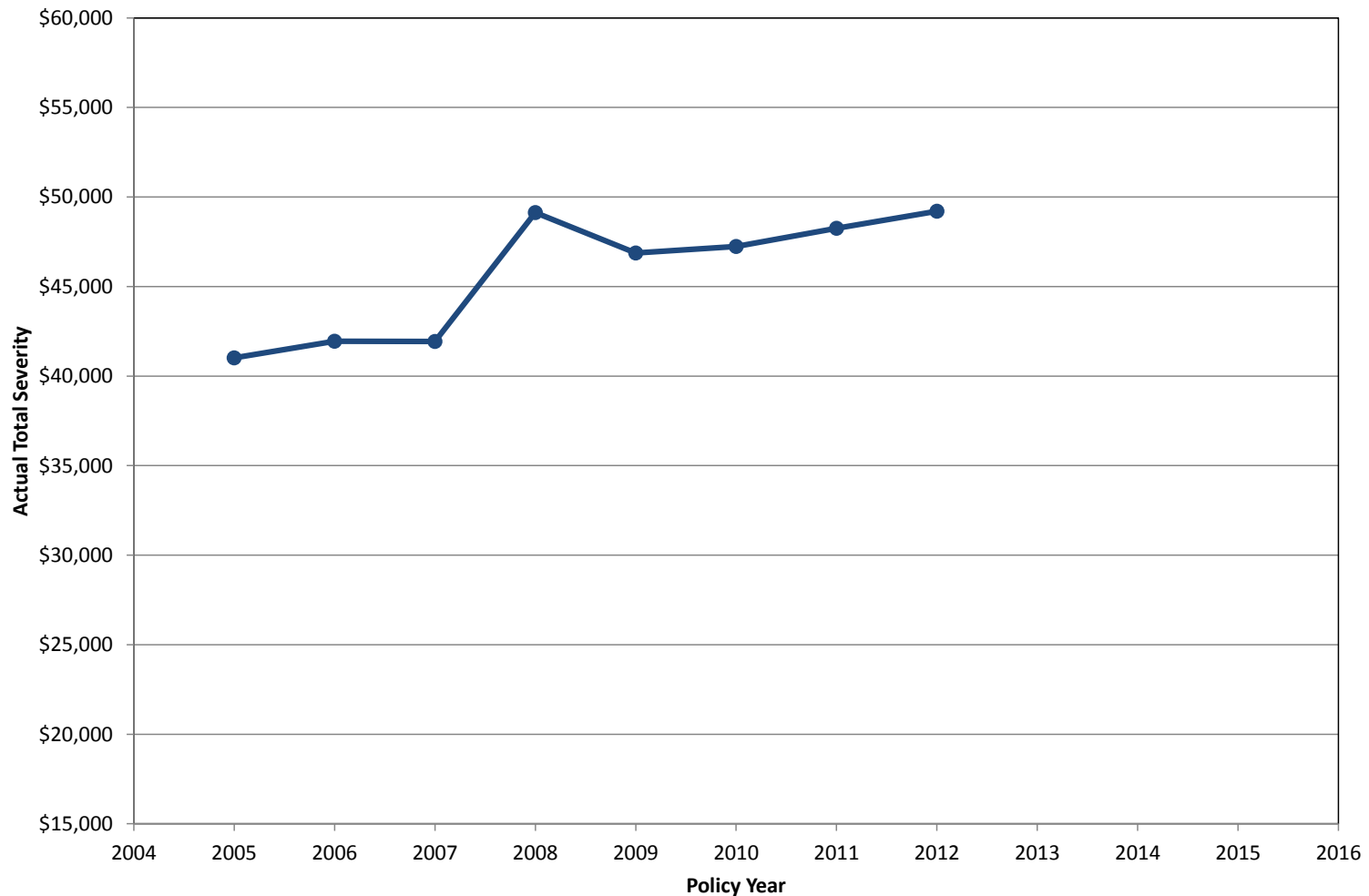
Industrial Classifications

Key State Indicators – Medical Severity – Actual Measurement



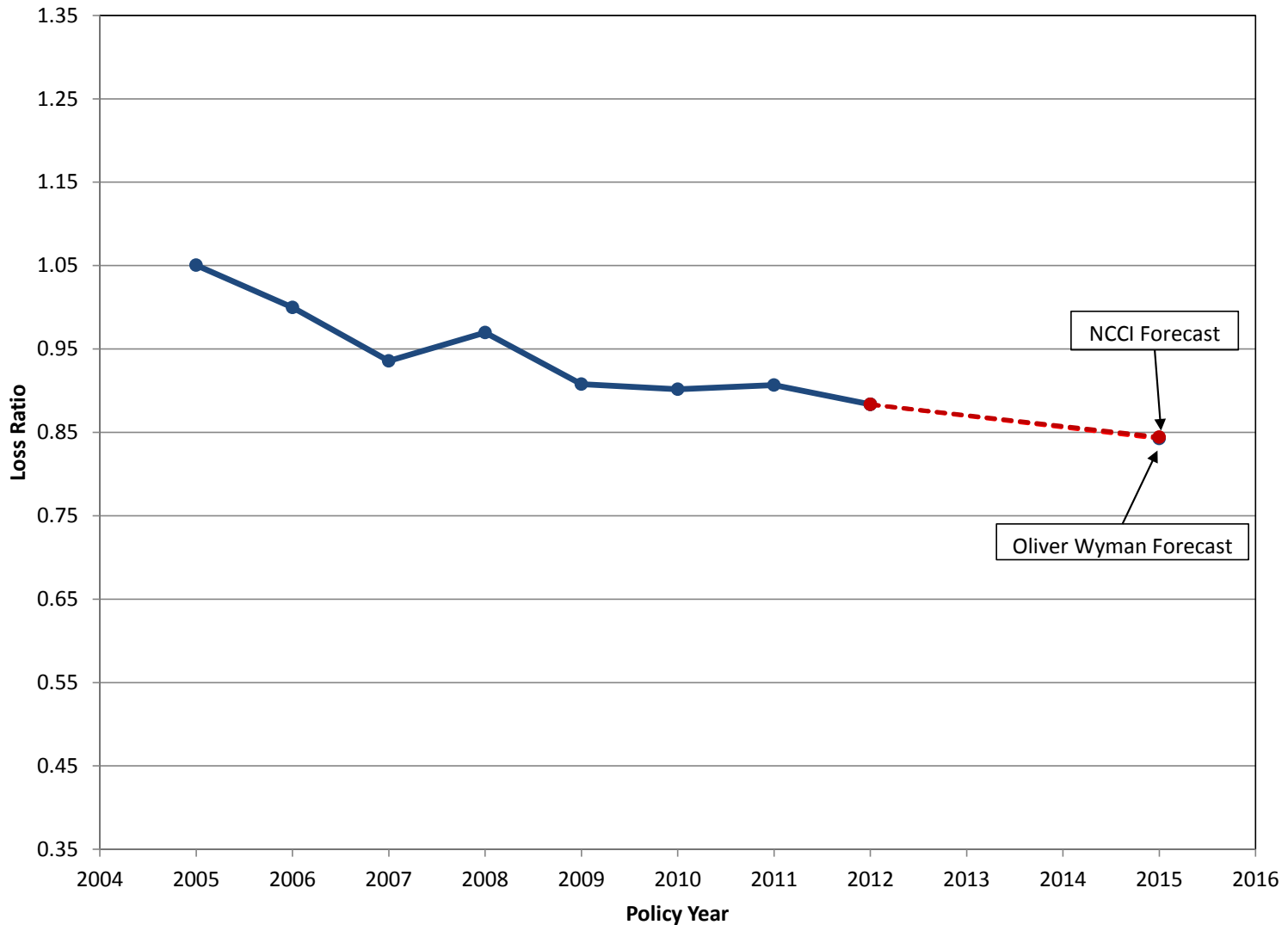
Industrial Classifications

Key State Indicators – Combined Severity – Actual Measurement



Industrial Classifications

Key State Indicators – Combined Loss Ratio



Industrial Classifications

Off-Balance Adjustment Factors

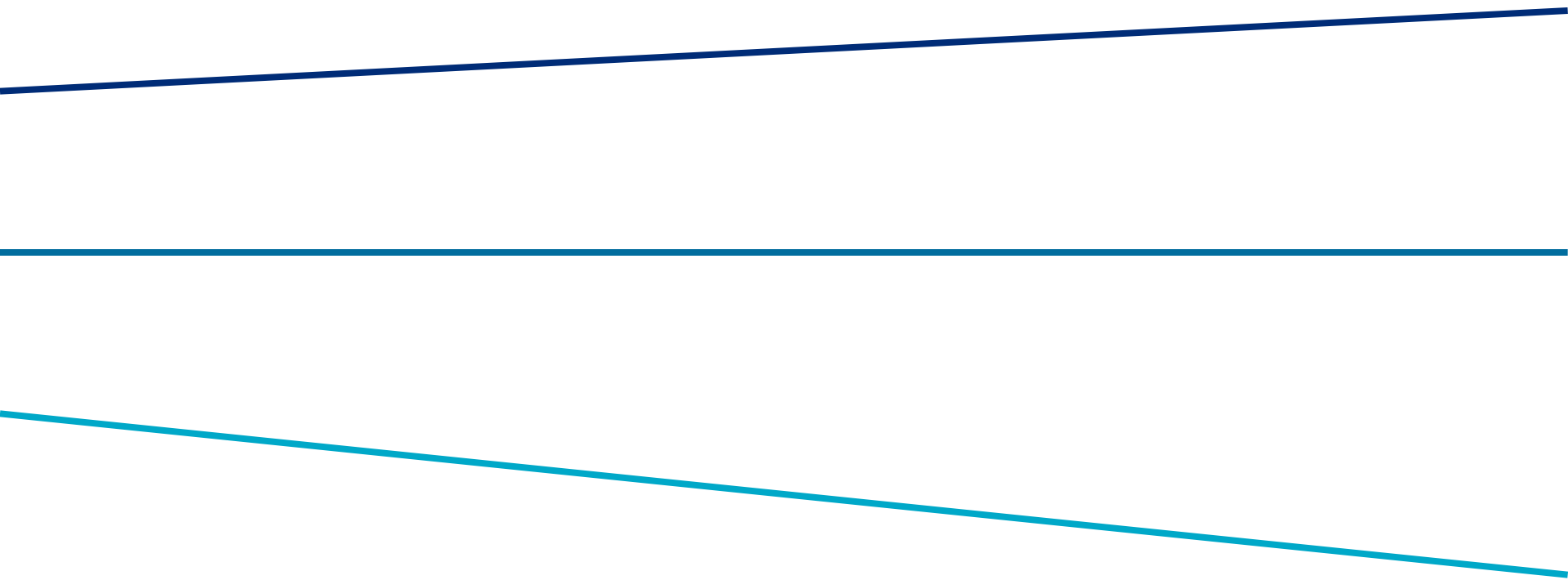
Rating <u>Year</u>	Excluding Large Deductible <u>Risks</u>	
2006	0.977	
2007	0.970	
2008	0.992	
2009	0.980	
2010	0.988	
2011	0.984	
2012	0.972	
2013	<u>0.974</u>	
	0.970	NCCI Proposed Target
	0.970	Division Target
	1.000	Oliver Wyman Preferred
	0.970	Oliver Wyman Target

Industrial Classifications

Discussion of Off-Balance Target Selection

- Experience Rating Plan Should be Balanced with a Target of 1.000 (in theory)
 - Typical range in actuarial literature is 0.980 to 1.000, but includes largest employers
- Target Off-Balance below 1.000 increases premiums for smallest employers who aren't experience rated
- Last year, Division approved a Target Off-Balance of 0.970

Class Ratemaking



Class Ratemaking

Large Loss Threshold

Current Methodology

- Losses excess \$500,000 are distributed using excess ratios which vary **by hazard group** within each hazard group
- \$500,000 limit has not been adjusted for inflation

Concern

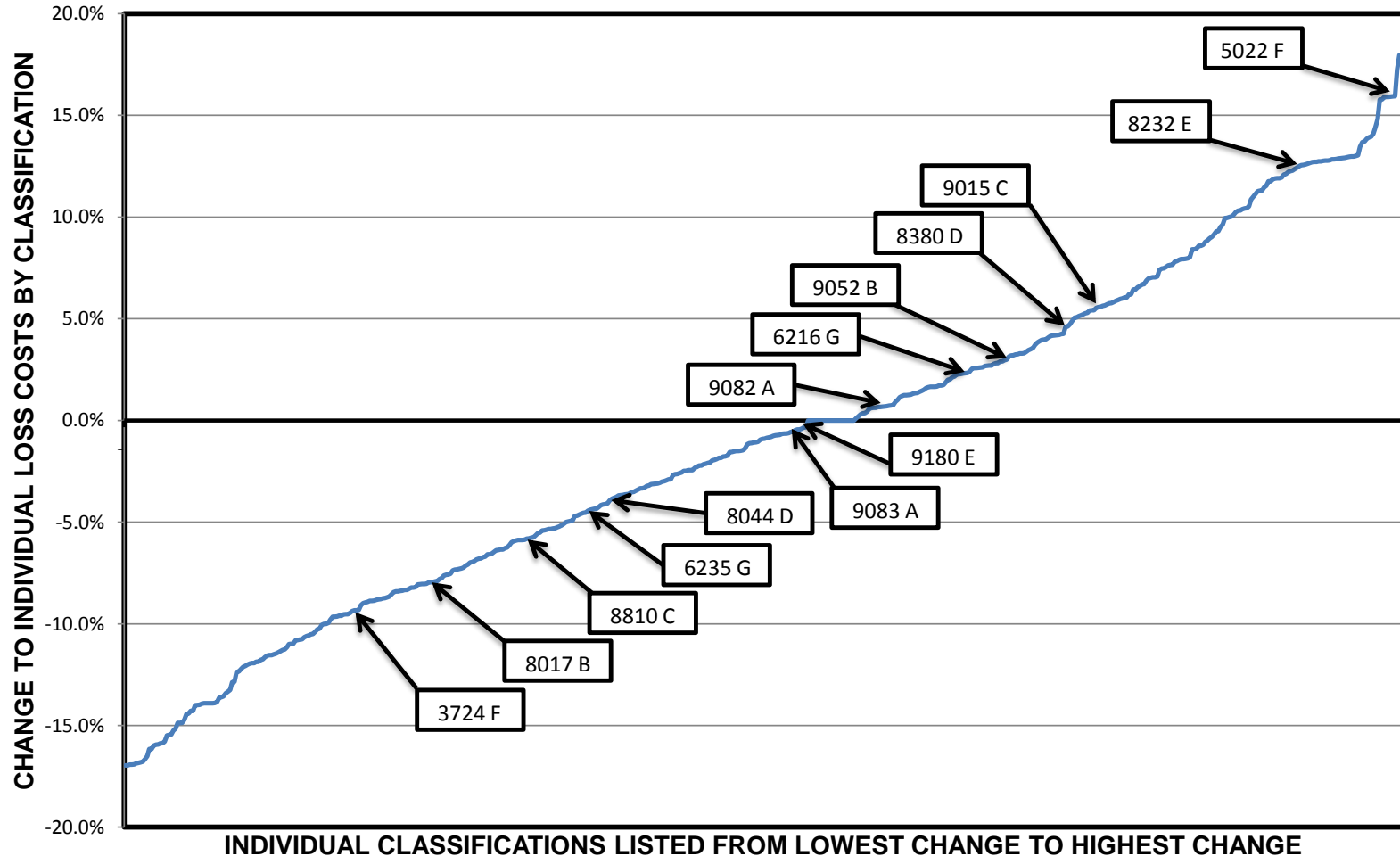
- Fixing the \$500,000 limit erodes the value of loss experience used for class ratemaking
 - Decreases weight applied to actual loss experience
 - Increases weight applied to excess ratios

Last Year

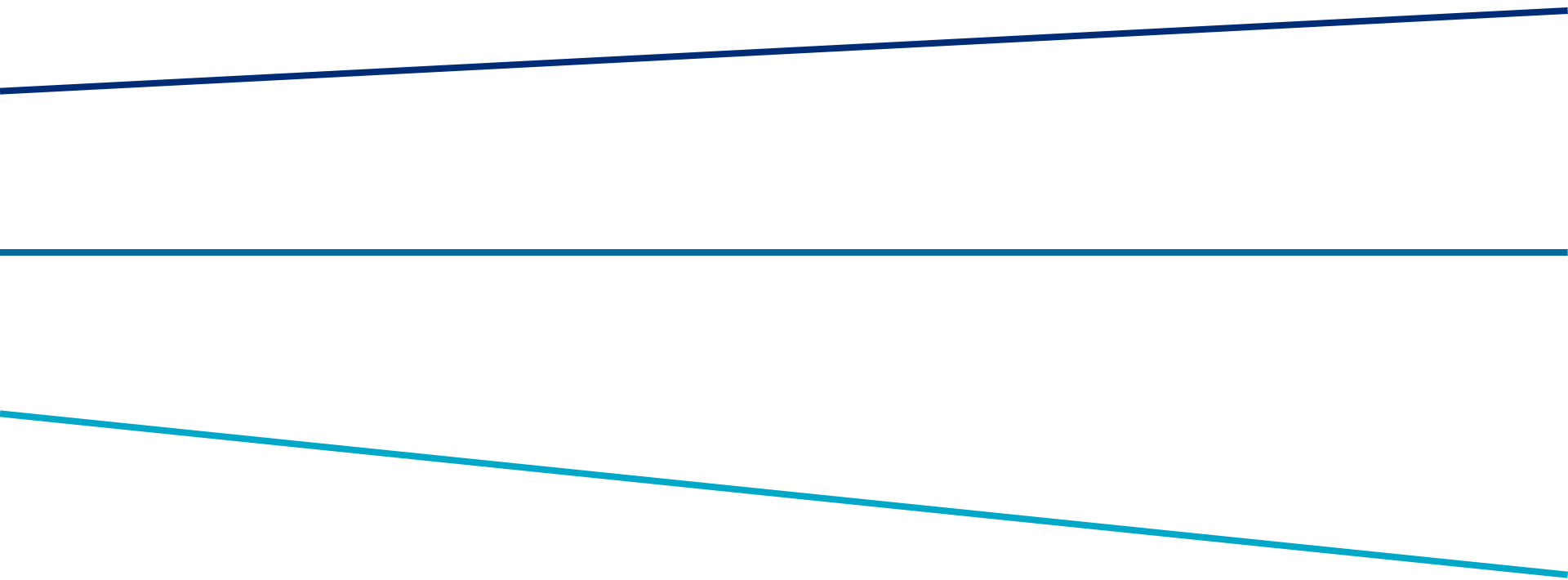
- Division ordered that NCCI review the \$500,000 limit no later than 2019.

Class Ratemaking

Colorado Loss Costs Effective January 1, 2015
Changes to Individual Classifications
0% Statewide Change to Loss Costs

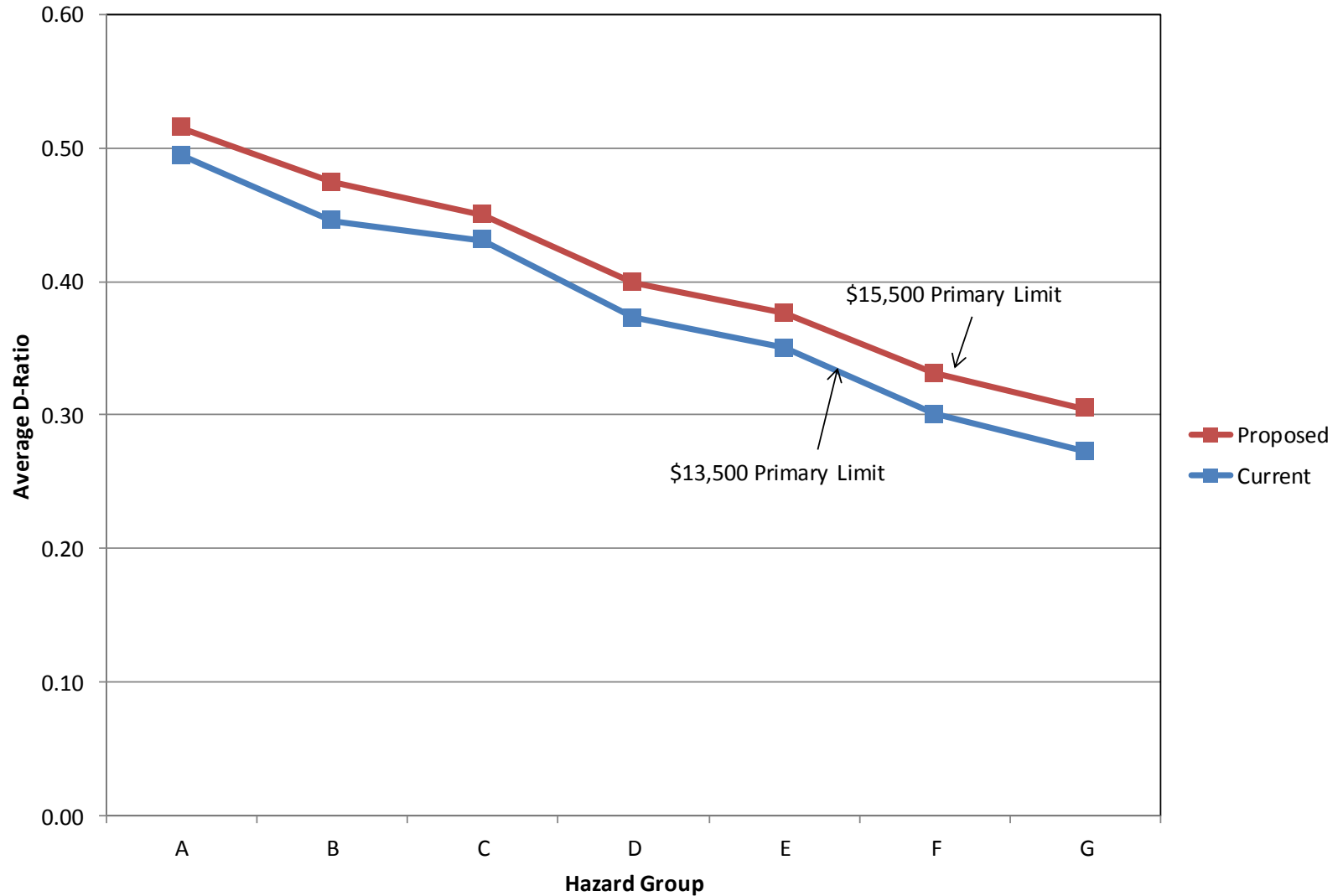


D-Ratios for Experience Rating



D-Ratios for Experience Rating

Average D-Ratio by Hazard Group



D-Ratios for Experience Rating

Change in Average D-Ratio by Hazard Group

